Trade Patterns and Strategies of South Africa and Turkey

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ABSTRACT

Manufacturing and International trade are key concept between advanced and developing countries for growth. However, developing countries on the path of industrialization are perceived to have a gloomy future regarding their trade patterns and strategies because these countries are schizophrenic about the liberalization of the trade policy to protect their industry.

The purpose of this research report is to analyze this fogginess on the path of newly industrialized countries by observing the similarities and differences between Turkey and South Africa export patterns and strategies. The study covers South African and Turkey export conducted only in 2015. Both countries’ patterns and strategies are analyzed with data based descriptive statistic embodied by the author. We use various indexes from the literature and develop some original indexes as our own contributions. We classified the export commodities based on: (1) Natural Resource, (2) Low-Tech Manufacturing, (3) High-Tech Manufacturing.

Keywords: Turkey, South Africa, Trade Patterns, Trade Policy, Industrialization.
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Chapter 1

Introduction

Many economists agree that manufacturing and international trade are key concepts for advanced and developing countries in relation to growth. Manufacturing is an extremely diverse sector: “R&D intensity-Labour intensity-Capital intensity-Energy intensity-Trade intensity-Value intensity”. Additionally, some rely heavily on transportation although for others, proximity to customers is crucial. As for the manufacturing role in the economy, it continues to provide a pathway from subsistence agriculture to rising incomes and living standards as well as remaining a vital source of innovation and competitiveness, making outsized contributions to research and development, exports and productivity growth. But the manufacturing sector has evolved—bringing both opportunities and challenges. Not only business leaders but also policy makers cannot rely on old responses in the new manufacturing environment. In today’s advanced economies, manufacturing promotes innovation and productivity more than growth and employment. In advanced countries, manufacturing has also begun to consume more services and rely more heavily on them to operate. For policy makers, supporting manufacturing industries and competing globally means that policy must be grounded in a comprehensive understanding of the diverse industry segments in a national or regional economy, as well as the wider trends affecting them. As for international trade, it is one of the main drivers of GDP of the states. If a firm or an individual purchases a good or service produced more cheaply abroad, living standards in both countries increase. Looking at it from this paradox, trade can be perceived as being more beneficial on the demand side but the domestic producer side does not view the situation as getting better off, thus this can result in job losses even if societies as a whole gain when countries trade (McDonald, 2012). Consequently, the governance policy for foreign trade should be done in precise and diplomatic manner by operators of countries on the path of industrialization. Based on these circumstances of international trade and manufacturing, there is a murky view on the path of newly industrialized countries like South Africa and Turkey. Newly industrialized countries are perceived to have a gloomy future regarding their trade patterns and strategies. Trade patterns can be described in two main ways: commodity types (e.g. raw materials vs. manufactures) and direction of trade (which countries are the bilateral trade partners). Trade strategies are the set of policies through which each government (SA and
Turkey) seeks to influence its trade patterns - encouraging trade in specific commodity types and to specific trade patterns.

The aim of this study is to analyze the obscurity of the path of newly industrialized countries by observing the similarities and differences of SA and Turkey’s trade patterns and strategies. The political and economic developments of Turkey and South Africa were similar in the 20th century. They serve as interesting points of reference because in as much as they are geographically different, they are categorized in the same economic basket which is described as newly industrialised countries. A Newly industrialized country (NIC) is a country whose industrialisation began to be recognized during the second half of the 20th century. This was a time when economies such as those of Hong Kong, South Korea, Singapore, and Taiwan underwent rapid industrial growth. Several other countries—such as Turkey, Thailand, Malaysia, Mexico, Brazil, Argentina, South Africa, Russia, China, and India—industrialized during the late 20th and early 21st centuries. During the late 20th and early 21st century, these countries have transitioned from having economies centred around the agricultural industry to being centred on the production industry such as manufacturing, construction and mining, during the late 20th and early 21st centuries. Furthermore, developing countries, as mentioned above, are so precarious for determining their trade policy due to the worrying about industrialization policy (Singal and E. Wokutch, 2017). Hence, it is worth to look their trade policy similarities and differences in order to investigate in which way they have industrialized themselves whether by the tools of liberalized trade policy or of protected trade policies Addition to same qualification that is “newly industrialized country”, Turkey and South Africa can be defined as well within the framework of definition that is “Both are determinative powers in their own region having international responsibilities”. As a result, we selected those two countries to observe the industrialization process of developing countries on the basis of their close similarity in terms of international economic and politic pattern, even though they are located on totally different region.

This research question has been built upon the export pattern and trade policy similarities and differences of the newly industrialized countries in 2015 by observing SA and Turkey’ export pattern and trade policies. International trade patterns are determined by the standard trade model through its endowment of productive factors and the technology it has available. Trade patterns
can be described in two main ways: commodity types (e.g. raw materials vs. manufactures) and direction of trade (which countries are the bilateral trade partners). Therefore, the question of “what” is directly linked to the question of the diversification of an export patterns. We will show, descriptive statistic, the degree of diversification of a country’s exports by their patterns. Thereafter, the question of “How” is directly linked to the question of a country’s trade policies; a subject of concern for many governments our theoretical point is “How this export pattern occurred?” which can be named as Trade strategies that are the set of policies through which each government (SA and Turkey) seeks to influence its trade patterns - encouraging trade in specific commodity types and to specific trade patterns. In the first chapter, we briefly outline the analytical framework, which essentially describes the concepts that will be used in this paper. Following this, the paper has focused on the trade patterns and strategies of the both countries in chapters 3 and 4. Each chapter has its own introduction and conclusion sections in order to make followings easy. In the last section, the paper is entailing comparative and conclusion section, comparing both countries’ patterns and strategies.

Basically, all the exports data would be visualized to figure out the patterns of the countries and then assessed according to the visualized data within the trade policy framework. The approach of this study relies on a Mixed-Method Strategy for Comparative Research known as Nested Analysis. The Nested method guides us to use both a quantitative and qualitative approach. Official trade statistics rely heavily on customs administration and are never entirely complete, but they provide an adequate basis for my purpose -- which is to describe broad patterns and trends. The data we used is sourced from, TURKSTAT (Turkish Statistical Institution), and SARS (The South African Revenue Service). Therefore, descriptive statistics will be beneficial. In order to determine the trade patterns, the official data would be exploited and used for each country issued and thereafter be displayed on the paper according to the chapters mentioned above. Thereafter, a comparative study will explain all the differences and similarities between South Africa and Turkey.
Chapter 2

Analytical Framework
After the fall of the Soviet Union, the international labor and capital mobilization, particularly in that region, become the same as domestic trade mobilization. Globalization has been on the agenda of the world politics since the end of World War II but accelerated during the 1990s as a result of liberation from the Soviet Union and the eagerness of countries to progress in technological advancement. A number of organizations were established after 1945 such as the World Bank, International Monetary Union, General Agreement on Tariffs and Trade which is now known as the World Trade Organization to liberalize the international trade and to prevent the regional or domestic trade protectionism (Globalization and International Trade, 2011). WTO’s aim in particular is to encourage the countries to reduce their tariff rates thereby allowing countries to a find market for their productions and benefit from International trade due to the low costs to import goods. WTO further states that having an open economy lead domestic producers to have an efficient specialization and competition with foreign competitors. On the other hand active participation in international trade also involves risks, particularly those associated with strong competition in international markets. Reliance on foreign suppliers may be considered unacceptable when it comes to industries that play a significant role in national security.

International trade is the sub-discipline of the international economic embodied with relevant theories to try answering the question “Why do nation trade” and “What should a nation’s trade policy” by observing the causes and effects of the countries’ foreign trade.

Economy Politic of Industrialization and Development
Why are some countries so much poorer than others? This question has been asked by many developing countries since the end of World war Two and moreover, they have deeply believed in that the key to increase economic development is a strong manufacturing sector, and that the best way to create that manufacturing sector was by protecting domestic manufacturers from international competition. There is an empirical correlation between the degree of industrialization and the level of per capita income in developing countries. Rising employment,
industrial production and manufactured export shave been observed among developed countries having a high GDP rate (Szirmaia and Verspagena, 2015).

There are a number of big protectionist debates concerning the correlation between industrialization and international trade. The most important strategy for this aim is the import-substituting industrialization which is a strategy that was to produce internally manufactured goods for the national market instead of importing them from industrialized countries and this became common between the 1970s and the late 1980s. The most important argument of this strategy is the “infant industry model” which is a process that governments use to protect young local industries until they grow and are able to compete internationally. The adverse strategy that emerged in the 1990s is the liberalization of the international trade by preferential trade agreements (Krugman and Obstfeld, 2000).

**Import-Substituting Strategy/Infant Industry Model**

The government temporarily supports new industries, until they have grown strong enough to meet international competition by using temporary measures like import quotas or tariffs. Historically, German and USA had tariff rates on manufacturing in the 19th century as well as Japan’s extensive import controls. The main criticism for this strategy is that it is only limited to labor intensive products whereas most developing countries continued to import computers, precision machine tools, etc. Therefore many developing countries began thinking about whether the import-substituting strategy has promoted their economic development or not since many countries that have pursued import substitution have not shown any signs of catching up with advanced countries. India might be good example for this (Krugman and Obstfeld, 2000).

**Trade and Investment Liberalization**

The collapse of the Socialist protectionist development model through centralized planning at the end of the 1980s, combined with a seemingly miraculous economic take-off for several East Asian countries during the 1970s and 1980s has produced a broad consensus that economic development is the best achieved through liberalization of trade. They were imposed by the structural adjustment economic development programs to loan capital from international institutions such as the International Monetary Form or World Bank. This left little choice to the developing countries for obtaining capital. Therefore developing states pursued liberalization policy to provide their required capital by attracting foreign investments. One component of the
move toward liberalization is the conclusion of preferential trade agreement, especially between developing and developed countries.

**Trade Pattern based on “Why Do Nations Trade”**
The pattern of international trade is basically “who sells what to whom”. With regard to agricultural products climate and geography can perfectly explain why Turkey exports nuts, and why Iraq exports oil. However, much of trade patterns ask more complicate questions such as why does Korea exports automobiles? , and Does USA exports aircraft?

Many years ago, famous economist David Ricardo gave an explanation for trade pattern by international differences in labor productivity. Ricardo’s argument is that a country will learn an efficient allocation of production factors through the international trade because comparative cost and factor endowments force it to produce and export cheaply domestically and this is how the country gain from the international trade by exporting the comparatively cheaper produces and this is how they shape their trade pattern. After Ricardo, there were a plenty attempts to react Ricardo’s allegation. Hecksher-Ohlin, which is still on, explained trade patterns with the interaction between relative supplies of national resources such as capital, labor, and land on one side and the relative use of these factors in the production of different goods on the other. Hecksher-Ohlin basically upgraded comparative advantage theory by adding another dimension which is that factor endowments is the reason of comparative costs (Krugman and Obstfeld, 2000). In other words, more abundant factors determine what would be produced because cheapness of production can be assessed relative to the abundance of factor endowment. For instance, the country having more labor relative to capital is specialized in labor intensive products such as textile, agriculture, natural resources (Walaza, 2014). Generally, Trade patterns can be described in two main ways: commodity types (e.g. raw materials vs. manufactures) and direction of trade (which countries are the bilateral trade partners). In this study, the complexity of the trade pattern is going to be assessed with descriptive statistic without reliance of any theories.

**Trade Policy-“What Should a Nation’s Trade Policy Be”**
The study of international trade has always been a dynamic and controversial element of economics. Through international trade in goods and services, the economies of different countries are more closely linked to one another now than ever before. At the same time, the
world economy is more turbulent than it has been in many years. Nations generally gain from international trade; however, it is quite possible that international trade may hurt particular groups – on income distribution. International trade can adversely affect the owners of resources that are “specific” to industries that compete with imports, and that is those who cannot find alternative employment in other industries. For forestalling the ravage of the international trade, there are some trade policies that have appeared, for example should the EU use a tariff or an import quota to protect its automobile industry against competition from Japan and South Korea? Who will benefit and who will lose from an import quota? Will the benefits outweigh the costs? Basically, trade policies are the set of policies through which each government seeks to influence its trade patterns -- encouraging trade in specific commodity types and to specific trade patterns.

**Tariff**

A tariff, the simplest of trade policies, is a tax levied when a good is imported. Specific tariffs are levied as a fixed charge for each unit of goods imported, for example 1$ for each product. Ad valorem tariffs are taxes that are levied at a fraction of the value of the imported goods (for example, %20 tariff on the imported agricultural products). Until the introduction of the income tax, for instance, the U.S. government raised most of its revenue from tariffs. But their aim is not to increase their revenue; it is to protect their industry. There are several distinctions among the tariffs. The first distinction is between bound and applied tariffs. The actual tariffs are the ones applied on the actual import products, the bound tariff is the maximum tariff rate determined by the WTO. The second distinction is between the Most Favoured Nation (MFN) tariff and preferential trade tariffs. MFN is applied between WTO signatories with whom there have been no free trade agreements or any privileges are imported from whom free trade agreements have been enforced. Hence, applied MFN ratios are either equal to or lower than the bound MFN tariff ratios. Countries impose tariffs on imports of either manufacturing products or agricultural products to protect them from import competition. The importance of tariffs has declined in modern times, because modern governments usually prefer to protect domestic industries through a variety of non-tariff barriers, such as import quotas, and export restraints. Firstly, although a tariff represents a tax placed solely on imported goods, the domestic price of both imported and domestically produced goods will rise. In other words a tariff will cause local producers of the product to raise their prices (WITS ONLINE, 2010).
In the absence of tariff, the trade would be equalized with the World price and it is assumed that the domestic good is substitutable with imported products, for example a washing machine. If home country imposes a tax of 2$ on every machine imported from Turkey, shippers will be unwilling to sell the goods unless the price difference between the two markets is at least 1$. Afterwards once the price of those imported machines rise due to the tariff, consumers will shift their demand from foreign to domestic produced washing machines. This leads to excess demand for washing machines in Home country and excess supply in Foreign, which will allow domestic producers an opportunity to raise output and prices to clear the market. In doing so, they will also raise their profit (Krugman and Obstfeld, 2000).

Consequently, with tariffs, the effect of this trade policy as such producer surplus increases, consumer surplus falls, government revenue increases with high taxes, overall national welfare is ambiguous. All of them on one hand, the government protects its domestic producer.

**International Agreements**

A bilateral trade or regional trade agreement are a preferential trade agreement which is the common policy on economic issues to undertake reducing tariffs, quotas and other restrictions on trade between them. Bilateral and regional trades are the preferential trade agreement because these bilateral and regional trade agreements are only beneficial for the states that are included in the agreements. This agreement divided into two categories: “Custom Union” and “Free Trade Area (FTA)”.

FTA occurs at where there are no any artificial barriers by officials to confine the flow of goods on both sides and is the first step of economic integration and designed for the countries unwilling or unable to engage high level of integration level. In the FTA, border official restrictions like documents and divisions of interpretation are not removed.

Custom Union and FTA are almost same. The main difference between them is to share set of rules when they need to restrict trade with third country which is not part of them. In Custom Union, the states must follow the mutual rules, but in FTA. European Economic Community or Southern African Custom Union (SACU) might be a good example for Custom Union (Pisat, 2013). Free trade upgrades the efficiency of resource allocation. Customers benefit in the domestic economy with a huge variety of goods and services. This variety also stimulates competition and simultaneously can restore dying and stagnant market. On the contrary, the cons of FTA are the reduced tax revenue and the unemployment led by Low-cost imports (Amadeo, 2014).
Intra-industry trade
In the modern world, each country can specialize in producing a wide range of products by international trade. Trade offers an opportunity for two way within the sectors; *Intra-industry* trade which occurs when a country exports and imports goods within the same industry or product group and *Inter-industry* trade which occurs when a country either exports or imports goods in different industries. Intra-industry trade is measured by the intra-industry trade index. This index indicates the amount of intra-industry trade embodied in a country’s international trade. The index is expressed:

\[
\text{Intraindustry Trade Index} = 1 - \frac{|X - M|}{X + M}
\]

For a particular industry or product group, X represents the value of exports and M represents the value of imports. The vertical bars in the numerator of the index denote the absolute value of the difference between the amount exported and the amount imported. If the U.S. only imports $100,000 of cloth from Turkey, the second term in the expression reduces to 1 by dividing ($100,000/$100,000), and the whole expression equals 0. This indicates no intra-industry trade in the cloth industry. If the U.S. only exports $100,000 of machines to India, the second term in the expression reduces to 1 by dividing ($100,000/$100,000), and the whole expression equals 0. This indicates no intra-industry trade in machines. If the U.S. exports $50,000 in food to India and imports $50,000 in food from India, the second term in the expression reduces to 0 by dividing (0/$100,000), and the whole expression equals 1, indicating that 100 percent of the trade in the food industry is intra-industry trade. Thus, the intra-industry trade index ranges from 0 (no intra-industry trade) to 1 (100 percent of the trade is intra-industry trade). The closer the index is to 1, the more intra-industry trade there is relative to inter-industry trade. The closer it is to 0, the less intra-industry trade there is relative to inter-industry trade (Krugman and Obstfeld, 2000).

Conclusion
The main dilemma of the developing countries to industrialize themselves is whether the trade policy should be “liberal trade policy” or “protectionist trade policy”. It is truth that market
access to developed countries is especially crucial for all emerging powers. Therefore, preferential trade agreements with the huge markets seem essential for those countries. On the other hand, they want to protect their domestic industry against the import competition by increasing tariff ratios. In this economic politic environment, those developing countries ask carefully themselves questions such as “Why Do Nations Trade?” and “What should a nation’s trade policy be?” to determine their trade patterns. Therefore, the analytical framework of this paper is basically embodied with trade patterns and policies of issued countries.
Chapter 3

Trade Patterns and Strategies of Turkey

Introduction

Turkey is one of the biggest middle income countries in the world. Geographically, it is defined as a transcontinental country situated between Asia, Africa and Europe. Economically, it is surrounded by oil rich countries in the Middle East and the economically advanced European Union. Turkey’s economic performance has been impressive since the year 2000. Macroeconomic and fiscal stability are central to its performance, enabling increased employment and income resulting in Turkey’s status as an upper-middle-income country (Turkey, 2016). In terms of sectorial composition of Turkey to GDP(Gross Domestic Products), the share of manufacturing is almost 18 %, Agriculture-Forestry-Fishing 8%, Mining 1.6% & Electricity-Gas-Water 2.6 %, Construction 5.1%, and Services 64.9%.

In addition to general information about Turkey, all data relating to Turkey’s export patterns in 2015 that was used in this chapter was provided by the Turkish Statistical Institute (TURKSTAT).

The following are indicators explaining the section numbers:

Sections

01 - Agriculture, hunting and related service activities
02 - Forestry, logging and related service activities
05 - Fishing, aquaculture and service activities incidental to fishing
10 - Mining of coal and lignite; extraction of peat
11 - Extraction of crude petroleum and natural gas
12 - Mining of uranium and thorium ores
13 - Mining of metal ores
14 - Other mining and quarrying
15 - Manufacture of food products and beverages
16 - Manufacture of tobacco products
17 - Manufacture of textiles
18 - Manufacture of wearing apparel; dressing and dyeing of fur
19 - Tanning and dressing of leather; manufacture of luggage, handbags, saddlery, harness and footwear
20 - Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting ma
21 - Manufacture of paper and paper products
22 - Publishing, printing and reproduction of recorded media
23 - Manufacture of coke, refined petroleum products and nuclear fuel
24 - Manufacture of chemicals and chemical products
25 - Manufacture of rubber and plastics products
26 - Manufacture of other non-metallic mineral products
27 - Manufacture of basic metals
28 - Manufacture of fabricated metal products, except machinery and equipment
29 - Manufacture of machinery and equipment n.e.c.
30 - Manufacture of office, accounting and computing machinery
31 - Manufacture of electrical machinery and apparatus n.e.c.
32 - Manufacture of radio, television and communication equipment and apparatus
33 - Manufacture of medical, precision and optical instruments, watches and clocks
34 - Manufacture of motor vehicles, trailers and semi-trailers
35 - Manufacture of other transport equipment
36 - Manufacture of furniture; manufacturing n.e.c.
37 - Recycling
40 - Electricity, gas, steam and hot water supply
51 - Waste and scrap
74 - Other business activities
92 - Recreational, cultural and sporting activities
93 - Other service activities
99 - Confidential data

Sections 29 - 35 were regarded as “high-mid tech manufacturing”. The Sections 36 – 15 to 29 are issued as “low-tech manufacturing”. Sections 10 to 14 are regarded as “natural-resource “.

The aim of this chapter is to formally describe Turkey’s export patterns, thereafter formulating export strategies based on observed patterns and policies. The first step will be to look at the trade policies Turkey applied throughout its history to boost its economy. Afterwards, the geographical pattern will subsequently be issued. We will figure out the geographical patterns of Turkey based on *Turkish Statistical Institute* (TUİK) data and then the export patterns will be
observed according to the geographical patterns. After figuring out Turkey’s trade patterns, the trade policies within the framework of the Turkey’s export patterns will be assessed.

The Political Economy of Trade Policies in Turkey
Historically, from the beginning of the 20th century (1923) to the 1980’s, the widely accepted trade policy was the import substitution and protectionist policies. Since 1980, the liberalization trend has been introduced throughout the World.

The Turkish economy was for a long time characterized by a model called the Soviet touch in addition to a large agricultural sector accompanied by a weak and internationally uncompetitive industrial sector based on import substitution. The Turkish republic was established in 1923, immediately after the war of independence. Ottoman economic heritage to new republic was not so beneficial, as there was many obligation incurred from capitulation contracts in place and the debts to the countries. The governments took over wreckage as a successor. In 1929, the externally imposed tax and tariff constraints stemming from capitulations were removed (Akalın, 1995). Many foreign enterprises from the Ottoman era were nationalised and changed to state monopolies. Industrialization had just begun in Turkey thus national development was almost impossible to carry out without state support. Thus a 5 year Industrial Program was issued by a committee from the USSR as per instructions from the state in the 1930's. In the first plan (1933-1938), textiles-cement-paper-and sugar sectors were established, thanks to the assistance and aid programs from the USSR and the state’s economic enterprises. However, due to defence concerns and the possible Second World War escalating in Europe, Turkey could not escape the devastating economic effects from these environmental effects and faced severe issues such as not accurately being able to implement the industrial plan; high inflation; black market and commodity shortage (Akalın, 1995). Basically, this term can be titled “the term with heavy presence of a state run company backed by the USSR economic model.

Immediately after the end of the Second World War, Turkey adopted a liberal economic approach due to the changing political climate and power balances. The industrial planning programs were aborted and Turkey accessed marshal plan aid from Europe. The political system was transformed (by the founding Republican party) from a single party political system to a multi-
party system and additional liberal economic programs (e.g. encouraging free enterprises) were issued (Celasun and Rodrik, 1989).

After the reforms introduced by the Founding Republican Party to democratize Turkey and adopt her to the new global system established with the end of Second World War, the Republican Party lost the election in the 1950 to the Democrat Party which was founded after the liberal reforms. Alongside the new leadership; the main economic approach was brought to a steep rise in agricultural production; primary exports and a high dependency on foreign aid and trade. This stand point at which the new government stands was at the failure of industrial policy of Turkey. Democrat Party was step down by military coup in the 1960.

In 1963, the new elected government following the stepping down of Democrat Party reinitiated the industrial planning development program by directing newly established State Planning Organization (SPO).These strategies are mainly based on the restored industrialization drive of the 1930s (which is import substitutions) supported by protectionism: quotas, licenses, import deposits, and tariffs. On the other hand, even if this policy helped the government reduce the import volume, afterwards, since they required intermediate goods for production and industrialization, import raised much more than expected (Akalın, 1995).Therefore, under such restrictive policy, the government struggled with foreign exchange availability. Furthermore, unlike the failure of its current account balance, there was a considerable amount of catching up in the industrialization process. Consequently, in this term, the model formed by public enterprises and planning ended up in a current account crisis because the trade deficit could not be prevented due to the protectionist policy. The 1970s was a hard period for the Turkish community because there were currency and commodity shortages as well as long queues for goods at shops. Foreign trade constituted a relatively small proportion of Turkey’s GDP and imports were financed mostly by external borrowing, remittances and modest levels of income from tourism. Exports remained very limited and mostly comprised of agricultural products and raw materials.

**Tracing World Trade Trend: Liberalization-Export Led Growth Model**

Due to currency shortages, the Turkish economy was under economic turmoil. There was critical development occurred during the 1980s for the Turkish politic economy. With Turgut Ozal’s new government in the 1980s, Turkey initiated a program where economic interests were given
preference over foreign policy concerns. This new program was devised to reshape foreign policy according to the current economic interests because the country could only pay for its petrol import expenses with its export revenues. He believed that Turkey had to reshape its foreign policy based on trade development by improving relations with neighbouring countries. Özal wanted to alter the economy policy from import substitution to export oriented growth policy and continued global initiative policies by opening up duties of the country. For this, Özal founded the Black Sea Economic Cooperation Organization with the regional countries after the dissolution of the Soviet Union alongside the close relationship with countries in the central Asia (Civan et al., 2013). It would be during the premiership of Turgut Özal that these economic reforms would be put into practice. As a result, the structure of the Turkish economy began to change dramatically from the early 1980s onwards. The agricultural sector that once used to dominate the Turkish economy was eventually transformed and a large manufacturing sector emerged together with a service sector, especially in the areas of banking, communication, health and tourism (Kirisci and Kaplanoglu, 2011). Under the Premiership of Turgut Özal, the economy was defined by a liberal approach, and despite receiving criticisms on the reform strategy, there was no doubt that by the end of the 1990s, Turkey had come a long way toward integrating with the world economy through trade and investment. By the early 2000’s, Turkey’s export pattern had already been classified with manufacturing products thanks to Özal’s liberalization program. The most striking aspect of this new picture is actually Turkey’s engagement with its immediate neighbourhood. Consequently, there is no doubt that Turkey’s geographical and product pattern has been changed in terms of both quality and characteristic since the OZAL government.

Following the 2001 economic crisis, with the stable governance of AKP (Justice and Development Party), Turkey has resulted in a successful macroeconomic and political stability. The AKP government led Turkey to integrate with the global economic system by revising the export-led growth program laid out in the early 1980s. Following the long import substitution regime and protectionist policies, Turkey switched itself to the export orientated growth strategy at the beginning of the 1980s. Since then, Turkey has constantly increased its export volume (Civan et al., 2013). To sum up, the Turkish economy embarked on an economic liberalization program on January 24, 1980, and since then has transformed its economy from a state-led economic growth model to an export-led economic growth strategy.
Trade Policy of Turkey
In terms of International trade and manufacturing there is an unclear view regarding the path of newly industrialized Turkey. A “theoretical point” for trade policy is the relationship between trade liberalization (as a policy/strategy) and industrialization.

Preferential Agreements of Turkey
Turkey has been a member of the World Trade Organization (WTO) since 26 March 1995. The country’s commitment to integrating regional and international trade norms can be seen in its participation in and membership of various organizations. In addition to multilateral trade liberalization, Turkey has pursued a few preferential trade agreements by concluding new regional and bilateral trade agreements. Followed by the signing of the WTO Uruguay Round requirements, Turkey signed the Custom Union agreement with the EU in 1995 which is the final phase between parties enlightened by the Ankara Agreement of 1963. The scope of the CU is industrial products and processed agricultural products. On the contrary, Turkish Service industries that represent almost 70% of the Turkish economy are not part of the CU, and are deprived from competition in the EU market (Ulgen and Dilek, 2015). In addition to the Customs Union with the EU, Turkey has signed the Free Trade Agreements (FTA) with Balkan countries: Albania, Bosnia-Herzegovina, Serbia, Macedonia, and Montenegro; North Africa and Middle East: Israel, Jordan, Morocco, Palestine, Iran, and Tunisia; Asia and Caucasus: Georgia, Malaysia, and South Korea, Africa: Mauritius, Europe: EFTA, and for America: Chile as well (U.S Department of Commerce, 2016).

General Profile of Turkey’s MFN Tariffs
Tariff policy one of the most effective and direct trade policy tools as mentioned. Tariff policy is mostly applied to secure national products produced by industries or agricultural. At the moment Turkey’s trade policy is currently based on a relatively open economy for manufacturing products, moderately protected for agricultural products by high tariffs. While Turkey’s agricultural average bound 61.1%, non-agricultural 17%, Simple average MFN applied tariffs are Agriculture 42.7%, and Non-Agricultural 5.5% (WTO, 2016).
The plot above shows the mean of high-tech manufacturing MFN tariff. Generally, Turkey is open economy to the international market for the high-tech products.

The plot above shows the mean of low-tech manufacturing products MFN tariff. Turkey is open as well to the international market for the low tech products (WTO, 2015).
Trade Pattern of Turkey’s Export
Today, the qualification of Turkey’s manufacturing levelled up to medium technology from the low and labour intense technology. In terms of geographical pattern, Turkey is becoming a ‘trading state’ and this is increasingly having an important impact on Turkey’s domestic politics as well as foreign policy. The expansion of Turkish foreign trade into neighbouring countries is driven generally by internal economic and political developments (Dogruel and Dogruel, 2012). Geographical Composition is classified based on TUKSTAT region classification model since the data was installed from that resource

As seen above Turkey’s export has been significantly diversified based on European Union and Near-Middle East (NME) that are main trade regions for Turkey’s export in 2015. Hence, the geographical patterns of Turkey are the EU, and the NME.

Trade with the EU in 2015
The EU is the world's largest exporter of manufactured goods and services, and is in itself the biggest export market for around 80 countries (EU Position in World Trade, 2014). Trade with the
EU is also important for newly industrialized countries such as Turkey in terms of accessing the huge and economically advanced market,

The plot above was calculated based on "Turkey total export value"; "Turkey total export to the EU"; "Turkey total manufacturing export to the EU". As seen on the plot above, during the financial crisis both the red line and the green line declined sharply. Additionally, as Turkey’s total export was rising, Turkey export to the EU declined between 2011 and 2012. The trade has started to recover itself since 2012.

**Export Pattern with the EU in 2015**

Turkey's exports to the EU are mainly consisting of machinery and transport equipment, followed by manufactured goods. EU exports to Turkey are dominated by machinery and transport material, chemical products and manufactured goods. According to the European Union reports, in 2015, Turkey’s manufactured product export is around 91%, likewise, Turkey’s
manufactured imports from the EU is around 95% (European Commission, 2016). Turkey manufacturing sector has been the main driver for Turkish export to the world. The economic relationship with EU has become much better as well as intense after the Custom Union signed in 1996. Today, the EU is Turkey's number one import and export partner while Turkey ranks 7th in the EU's top import and 5th in export markets. In 2015, Turkey exports to the EU:

![Turkey's Export to the EU](image)

According to the plot above the export pattern of Turkey with the EU in 2015 is embodied with high-tech manufacturing products at almost 36%, low tech manufacturing products at almost 59%, and natural resource %1, which shows that Turkey’s engaging to the EU market is driven by a low tech manufacturing exports as well as a significant share of the high-mid manufacturing exports.

**Trade Policy with the EU**

Turkey trade policy with the EU is generally framed with the preferential trade agreements: Custom Union regulations between Turkey and the EU. Turkey entered the Custom Union on 1 January 1996. Through this agreement, Turkey eliminated tariffs and levies on manufacturing products imported from the EU in addition to applying EU’s common external tariff on imports from third countries, with regard to agricultural products, except agro-industrial products, they
were excluded. The Customs Union covers all industrial goods but does not address agriculture (except processed agricultural products), services or public procurement (ÜNGÖR, 2003). Easy access to the European Market had a significant and visible effect on the Turkish industry. This high level of competitiveness introduced a climate of producing an improved quality of products manufactured in Turkey. This force leads to shift Turkey’s industry export from the low technology to the middle technology export goods assessed the effects of the Customs Union to the Turkish economy in terms of the technological content of Turkish exports and showed that although low-technology products outweigh, there has been a dramatic shift to medium and high-technology exports thanks to the orientation to the European markets (Tekçe, 2015). The competitiveness within the EU market since Custom Union might be a big factor in the changing pattern of Turkey’s manufacturing industry.

At the plot above, both the low-tech and high tech manufactured products are at 0.55 which illustrates that the intra- industry trade for these products is occurred remarkably since they both are beyond the 0.5. The intra-industry trade with the EU shows the competitive power of Turkey’s manufacturing products because Turkey’s manufacturing goods has to render the quality condition based on European standards in order to be able to circulate in the Market. This condition leads Turkey industrial products to reach the high standard and to raise compatibility
level in the global market (Özsümer, 2016). Therefore, Turkey wants to revise the treaty with the EU by including the tariff reduction of the agriculture and service sector as it is believed that the quality of both sectors would be levelled up.

**Trade with the Near Middle East**
The term Middle East is the commonly used word among academicians but it is not easy to answer what is the Middle, and what is the East. Hence, in order to clarify these complexities in literature, East is divided as *Far East, Near East or Near Middle East*. Near Middle East can be extended from the Persian Gulf to Morocco.

The stable and strong economic relationship relies on the political climate the parties have, hence it can be said that the trade relation with the EU is more professional-international law based (Custom Union Agreement) and less dependent on political relations, however the trade with Middle East is completely under the opposite conditions. As Turkey’s political relations with the Middle East began to normalize, followed shortly thereafter, the improvement in economic relations can be seen easily. Turkish export to the NME is highly dependent on political developments between the actors in the region (Tür, 2011). Even though there are political volatility, Middle East is a significant partner especially for small and medium sized businesses in Turkey (Cetingulec, 2015).
When we look at the plot above, these results come as no surprise and further confirm the above statements. Therefore, one can deduce that the turning point occurred in 2012. Before 2012, there remained a sound economic relationship between the NME and Turkey. Since the ‘Arab Spring” there has been a downward tendency on the trade relations together with political relations with each other. Therefore, it can be said that the economic relation is more political interest based dependency than it is a technical or economic interest based dependency as with the EU.
As seen in the plot, there are five main country patterns in the NME region for Turkey’s export, namely: Iraq, UAE, Iran, Saudi Arabia, and Egypt. These countries consist of more than 70% of Turkey’s total export to the region. Israel has the highest demand for motor vehicles, trailers and semi-trailers. Turkey’s export to the NME is generally shared with Iraq 27.3%, UAE 15 %, Iran 11.7 %, Saudi Arabia 11.12%, Egypt 10%, and Israel 8.6%.

**Export Pattern with the NME**

Turkey’s total foreign trade has increased due to the contribution of those small and medium sized businesses. The appearance of small-medium businesses is a result of the liberal economic policies applied, especially after the country pattern diversification because the Middle East is the most profitable and closest destination for the small medium business in the Turkey. Today, Turkey’s increasing share within the Middle East is around 22% in 2015, 9% in 2000. To determine of the Turkey export pattern with NME in 2015, we will run data from TURKSTAT.
The graph illustrates that most of those manufacturing products are composed of low-tech manufacturing goods. Mid-High technology is summed as 17% which is half ratio of the high-mid export share in the EU, low-labor intense technology manufactures as 79%, natural resources as 0.42%. General patterns with the NME is “low tech manufactured goods”.

**Trade Policy with NME**

The launching export led growth economy policy with the Turgut Ozal government is the first step for the Turkish export country and commodity diversification. Turkey had come a long way toward integrating with the world economy through trade and investment. In addition to this, these liberalization packages led to the emergence of small-scale family businesses in Anatolia that were dynamic, well adapted for flexible production patterns, and actively competing in international markets. Known as the “Anatolian Tigers”, they formed the Independent Industrialists and Businessmen Association (MUSIAD) in 1990. Unlike the Turkish Industrialists and Businessmen Association (TUSIAD), founded in 1971, which represents large firms and holdings mostly based in the Marmara region, is politically and economically Western-oriented and based on European organizational models, MUSIAD brings together small- to medium-sized businesses from cities around Anatolia and has adopted a primarily Eastern-looking strategy,
which is where Middle Eastern countries have emerged as an important market. MUSIAD brought Islamic values and conduct into the business community. AKP ruling party in Turkey at the moment has supported MUSIAD with new foreign policy approach driven by Ahmet Davutoğlu who opened up “zero problems with neighbours” policy stand out (Tür, 2011). Davutoğlu’s expectation is not only the creation of a venue for Turkey’s exports and business activities but also the achievement of regional peace. Increasing trade figures, growing investments and the free movement of people by lifting visa requirements have been important tools to this end. Hence, it can be concluded that Turkish economic policy to the Middle East shaped with the foreign relations with Middle East countries. In contrast to the trade relations type with the EU which is stretched out with the companies relations and independent from the politic relations, Turkey’s trade with the Middle East has been developed under the shadow of political development and cooperation at the political level. Consequently, the trade policy in the Middle East is run by the politic-governmental relationship rather than technical-professional relations framed by international law. For the EU, the economic relations are generally set by the Custom Union agreement so whoever comes to government cannot effect easily on this relationship even if the government is ideologically against to the EU.

Turkey’s export share to its main trade partner in the region Iraq is around 27.3%, high-mid technology sections 12.01%. In 2015, Iraq was the third largest export partner of Turkey with its share of 5.9% with 8.5 billion $ value.
It can be said that Turkey's exports to Iraq was embodied with the basic-labour intense manufacturing products. The patterns with Iraq and the NME is overlapped within the almost same ratios, high-mid technology manufacturing products 12%, low-labour based manufacturing exports 83%, natural resources 0.08%. This result verifies the trade pattern with the region as well because the high mid technology export of Turkey to the region is significantly low especially with comparison of the EU. This can be seen in the intra-industry index chart as well.
The plot above indicates that Turkey’s manufacturing industry did not have a significant intra-industry trade in manufacturing sector with the region due to Turkey’s high comparative advantages in manufacturing against the NME. It can be seen that where MUSIAD operates as a deal-broker with regard to trade, the products sold comprises mostly of low-techno manufacturing and food products. Apart from Israel, the trade composition with the Middle East is based on mixture of low tech manufacturing and animal-food products as well as some valuable stones and very few machine and electronics.

As a result Turkey’s small-medium sized business goods such as food and agricultural products play a significant role in Turkey’s export commodity composition to the Middle East. The reliance on the political webs and certain ideological frameworks of the trade volume leads the economic relation to fluctuate because the trade relation between Turkey and the NME has not been operated on the grounds of technical-international law bases.
Conclusion
Turkish export performance is a massive since the liberalization program was applied, and this largest task is being run by the manufacturing sector.

Firstly, Market pattern: Turkish export has broadened its market destination exporting to almost 137 countries at present. On the other hand, the second biggest export market is the Middle East countries followed by the European Union. Although there is significant diversification, the determinant market of Turkey’s export still remains the European Union. The geographical pattern of export was initially the EU but it is today both the EU and the Middle East.

Products pattern:

As seen above, the general trade pattern of Turkey is shaped with natural resource 0.5%, Low tech manufacturing 65%, High-mid tech manufacturing 30%. The composition of Turkey’s export basket changed significantly over the past decade, as the economy is moving increasingly to capital-intensive and institutions intensive products from those intensive predominantly in inexpensive labour (World Bank Turkey, 2014). The high-mid tech manufacturing share in Europe is 35.88% of Turkey’s total export to the EU; this ratio is 17.42% in the NME of Turkey’s
total export to the NME. This difference makes the EU market more beneficial for industrial products. Hence, the spill-over from the strong trade and investment relationship with the EU – including technology, management and marketing expertise – are essential for generating solid value added and helping upgrade Turkey’s export basket (World Bank Turkey, 2014). For instance clothing, food, and textiles were the main export sectors of Turkey to the EU, with 65 per cent during 1998. However, asserts that the clothing sector had started to lose its importance and transport equipment; road vehicles, motorcycles, TVs and some electrical household appliances have started to gain importance in the Turkish foreign trade with EU (ÜNGÖR, 2003). Therefore, Turkey has already embarked upon a restructuring trend from presumably low-value-added sectors toward relatively more capital-intensive and high-value-added, research-intensive sectors in the EU market (Özçelik and Güzin, 2014).

The product pattern with Middle East except Israel is based on low-labor intense manufactures and food products. This stemmed from the reasoning that trade with the Middle East countries have been conducted by MUSIAD-Small Business Enterprises (SMEs) since they have common Islamic ideological principles.

*Trade Policy:* There are a few determinants to assess the pattern of Turkish trade within the manufacturing industry. Turkey’s industrial trade is highly dependent on the intra-industry trade with the EU. This manufacturing has increased along with import rising, hence one of the most significant characteristics of the manufacturing industry is its dependence on imported intermediary goods (Gros and Selcuki, 2013). Therefore, any raise in exports leads to an increase in imports. The dependency is the main cause of Turkish trade imbalance.
The chart above says that trade with Middle East countries seems more profitable than trade with the EU. Although the existing trade patterns with the Middle East are composed of low manufacturing products and oriented by a small and middle business environment, the trade deficit is on the positive side unlike the EU. This actually shows the intensity of intra-trade relations between the EU and Turkey because the EU has the highest share of the Turkey high-mid technological manufacturing products destination. Turkey doesn’t have a significant intra-industry trade due to Turkey’s high competitiveness against the NME as seen the chart above. As a result, Turkey trade policy for her manufacturing products in which developing countries are schizophrenic for the trade liberalization in order to protect their industry is framed with liberal policies. As seen above, although the existence of the high dependency of the intra-industry trade with the EU or trade deficit, Turkey have been carrying on being part of Custom Union and believes that trade with the EU helps Turkey upgrade her technology whilst racing high progressed European products. Additionally, Turkey is open country to international market for manufacturing products based on MFN tariff profile. The low MFN tariff ratio in manufacturing did not seem to be impacted negatively on Turkey’s comparative advantage in manufacturing sector in the NME. These liberal policies did not affect negatively on its competitiveness power as seen in the NME and her technological progression in the EU market.
Chapter 4

Trade Policies and Export Patterns of South Africa

Introduction

From 1994, South Africa has been politically stable as all ethnic and linguistic groups have had political representation compromised of a parliamentary republic democracy and an executive branch of government that oversees nine provinces. Officially, the Republic of South Africa is the southernmost country in Africa. More than 80% of its population originates from the Sub-Saharan region, while the reminders of the ethnic groups are divided among those European, Asian and other multiracial ancestry. The country’s economy is classified as an upper-middle income and newly industrialized country by embodying a capitalized banking system, abundant natural resource system, well developed regulatory system alongside high manufacturing bases and R&D capability. South Africa has a diverse economy with the following sectors: GDP value is shared as Agriculture:2.2%, Mining:10%, Manufacturing:13.3%, Electricity and Water:2.6%, Consturction:3.9%, Wholesale, retail, motor trade, catering and accommodation: 14%, transport-storage and communication:9%, Finance, real estate and business services:20.7%, government services:17.6%, personal services 5.9% (South Africa:Economy Overwiev, 2015).

Since 2011 SA has been part of BRICS which comprises of Brazil, Russia, India, China, and South Africa, alongside being part of the G20 countries. With the end of the apartheid regime, South Africa started to integrate its economy with the international economy. Today, South Africa has the most technologically advanced and diversified economy in Africa, with a large services sector that is generally open to foreign investment (Trade Policy Review: Southern African Customs Union (SACU), 2015).

All data used in this chapter to be used was sourced from the South Africa Revenue Service (SARS) data. The table below shows the product classification with numbers,
Section 5, 14, and 13 were regarded as Natural Resources, High-mid technology manufacturing is regarded as the composition of Section 16 and 17. The remaining products are issued as low-manufacturing products with the exception of sections 1, 2, 3, and 4.

The aim of this chapter is to formally describe SA’s export patterns thereafter; the trade policy based on observed patterns will be discussed. The first step entails looking at the political economy of the trade policies in SA. The trade policies SA applied through its history to boost its economy will then be examined and evaluated. The geographical and trade pattern that used in this paper issued are based on the data from *South Africa Revenue Services* (SARS). After determining SA’s trade patterns, the trade policies within the framework of SA’s export patterns will then be assessed.

**The Political Economy of Trade Policies in South Africa**

Historically, from the beginning of the 20th century to the 1970’s, the broadly accepted trade policy was import substitution. Since that time to apartheid, two trade liberalization programs have been attempted as the import substitution policy had started declining.
**Import Substitution before 1994**

In 1925, the firm import restriction act was announced to create economic independency from Britain to build up employment in the manufacturing sector especially for the “poor whites” that came to urban areas and to boost the industrialization process of South Africa whish was the main objective. Through the course of the protectionist policy, a numerous amount of report had been published by selected commissions appointed by the government. These reports recommended that there were substantial gains in employment and industrial expansion but that protection was having awakening effect on productivity and competition. In 1958, the Vilijoen commission recommended that this protectionist be continued, but through the use of tariffs, as opposed to QR(Quantitative Restrictions on Imports) or subsidies. Nevertheless, QR remained and maintained its critical figure for the protection programme. As a consequence, some unprofitable investments established by the SA such as Mossgas and Sassol are deemed necessary to maintain independence from the rest of the world. Private entrepreneurships had entertained with high prices stemming from high tariffs. However, due to not enough competition, productivity and inferior quality of products, the industrialization speed slowed down in the 1960s because further industrial expansion was increasingly dependent on the continuing ability to import capital (Holden and Bleaney, 1995). The unbalanced macroeconomic situation pushed SA executives to seek a new pathway in the 1970s. Meanwhile, SA was observing the growth performance of the export oriented South Asian countries. In 1972, according to the Renders commission of inquiry (Renders Report), it found that SA was too dependent on a single commodity and SA tried to solve its foreign currency needs by using this commodity. Therefore the commission recommended a positive promotion for exports, especially for the manufacturing sector, as a long term solution for future foreign exchange needs. Reforms began with the relaxation of quantitative restrictions (QRs) and the introduction of an Export Development Assistance scheme in 1972, which was then reinforced in 1978. Although tariff increases were compensated for the relaxation of QRs, these were not fully compensatory resulting in a net decline in protection. Nevertheless, the trade regime remained protectionist as the incentives introduced were an attempt to redress some of the anti-export bias rather than shift the economy towards export orientated growth. During this time, the exports increased impressively but especially based on Gold and Based Metals. In industrial terms, most
of the manufacturing products were sold in the domestic market. Generally, the regime remained protectionist.

The debt crisis, where South Africa suspended capital and interest payments on foreign debt, arose from a combination of various factors. Additionally, political instability and the imposition of the state of emergency in July 1985 led to an outflow of capital and a refusal by foreign banks to renew their short-term loans. The 1980s were the reform period for South Africa in terms of relaxing either economic or political confines. This was followed by the Rubicon Speech for reforms of the apartheid system, QR impositions being replaced by Tariffs. Differential surcharge rates on luxury goods (60 percent), capital goods (10 percent), motor vehicles (20 percent) and intermediate goods (10 percent) replaced the uniform 10 percent rate in August 1988. These had a substantial impact on the overall level of protection. The early 1990s were characterized by a much stronger export promotion drive. The implementation of ‘structural adjustment programs involved a system of duty free imports for exported goods for the motor vehicle, clothing and textile industries in 1989 and was shortly followed in 1990 by direct export subsidies for manufactured goods under the General Export Incentive Scheme (GEIS). Import surcharges were also gradually reduced and finally eliminated by 1995. Further efforts were also made to reduce quantitative restrictions (Edwards, Cassim and Van Seventer, 2009).
Export Orientation Policy since the End of Apartheid

After the great shift in the SA political history in 1994, the SA’s trade policies were transformed to liberalization and great openness to the world through tariff liberalization. In 1994, SA made a commitment in the GATT Uruguay round for a tariff rationalization process which aimed at reducing and simplifying the tariff structure. The same year, the United States granted the Generalized System of Preferences (GSP) status to South Africa. The liberalization of the trade regime was accompanied by many domestic measures such as the replacement of quantitative restrictions with ad valorem tariff lines. The simple average tariff on manufacturing goods was reduced from 21.0 percent in 1992 to 15.6 percent in 1997 and about 11.5 percent in 2002, and the number of tariff lines was reduced from over 13,000 in 1993 to about 7,900 in 1998. Virtually all quantitative restrictions had been eliminated by 1998 (HVIDING, 2006).

Today, the operators of the South African Economic Policy have been discussing the National Development Plan (NDP) that was envisioned by 2030s. The NDP is a policy framework geared towards the improvement of South Africa's economic growth and prospects. It aims to fulfil its objectives of reducing poverty and inequality in South Africa by 2030. The country could become more competitive globally in manufactured goods; The NDP is different because it is bottom up instead of the usual top down approach. The NDP has to be viewed in light of other policies and plans that have come before it such as the RDP, GEAR. The Reconstruction and Development Programme (RDP) was launched by the ANC government in 1994. The RDP was aimed to address the vast socio-economic problems facing South Africa in 1994 as Apartheid ended. One of the key aspects underlying the RDP was that it linked reconstruction and development. GEAR is a macroeconomic strategy that was adopted by the Department of Finance. In terms of international politics economy, the government had aimed to reduce accelerated tariff reduction to compensate the depreciation and inflation. The NDP was developed and is being managed by the National Planning Commission. Department of Trade and Industry is aimed promoting growth in industrial production through the manufacture and export of more value added goods. On the other hand, it is embodied a tariff policy aimed at strategically protecting those industries that may still have challenges with competing on the global market such as the local textile industry. Consequently, GEAR was seemingly much more liberal within the comparison of NDP (Gavaza, 2013).
Trade Policy of South Africa

International Trade Agreements of South Africa
In addition to multilateral trade liberalization, SA trade reform has also pursued some preferential trade agreements by concluding new regional and bilateral trade agreements. SACU, established in 1910, is the oldest custom union in the world. SA unilaterally set the tariffs in accordance with its industrial policy; hence, SACU (Southern African Customs Union) was renewed in 2002 and entered into force in 2004. The new Agreement democratizes relations between SA and Botswana, Lesotho, Namibia and Swaziland (BLNS). The SACU is embodied by a Council of Ministers as the highest decision-making body taken by consensus (HVIDING, 2006). In SACU countries, they do not charge import tariffs among themselves, because they belong to in a Customs Union. There are no tariffs or quotas on goods originating from within the Customs Union. Goods move freely from one country to another. There is a duty free movement of goods with a common external tariff on goods entering any of the countries from outside SACU (Directorate, 2009). Another multilateral trade cooperation of SA is the South African Development Community (SADC) joined in 1994. SADC provides for tariff-free trade inside the union and allows for the extension of any preferential tariffs granted any one of the members, comprising Angola, Botswana, Lesotho, Democratic Republic of the Congo, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe. Seychelles-DRC-Angola has not joined yet to FTA. SADC started Free Trade Zone with 85% duty free in goods and services as a first step for the regional integration in 2008 (Directorate, 2009). Additionally, there is bilateral agreement “Trade, Development and Cooperation (TDCA) between SA and the EU, bilateral trade agreement with US, Zimbabwe-SA bilateral trade agreement. Consequently, South Africa has conducted a tangible and concrete transformation on the side of the trade liberalization since 1994 by either trade policy or economic diplomacy means.
General Overview of SA’s Tariff

At the moment SA trade policy is based on relatively an open economy however she is moderately protective especially for Textile-Car components. While SA’s agricultural average bound is 40.4%, non-agricultural 15.7%, Simple average MFN applied tariffs are 8.5% for Agriculture, 7.5% Non-Agricultural.

The plot above shows the mean of high-tech manufacturing MFN tariff. Generally, SA is open economy to the international market for the high-tech products apart from Vehicles. SA is protecting “Vehicles” by moderate tariff.
The plot above shows the mean of low-tech manufacturing MFN tariff. SA is protectionist for its textile industry to the international market for the low tech products (WTO, 2015)

**Trade Pattern of South Africa**
After the democratic change in 1994 and the long period of international isolation, South Africa has re-entered into the international community. Although South Africa’s re-entry into the international market has increased exports and access to foreign capital, this also resulted in exposure to international competition as well. The export value in 2015 was relatively $81.5 billion, this rate is down by -24.5% from the value in 2011.SA’s export share in the SA Gross Domestic Product was about 11.3% in 2015 (Workman, 2016). Exports are expected to be a key factor for the faster growth, with the National Development Plan targeting export volume growth of 6 percent a year. A stronger export sector also drives job creation. Increasing exports, particularly in manufacturing, may be crucial for the low-skilled job creation needed to substantially reduce high overall and youth unemployment. Exports are especially critical amid South Africa’s widening current account deficit—and the external vulnerability arising from its reliance on volatile capital flows to fund the deficit. Therefore, the trade pattern of resource rich countries is important to diversify their export products in order to create steady and sustained economic growth.
As seen above, SA exports have been diversified significantly based on Africa, Asia, and Europe. Given that there are three main trade regions for SA export, the SA geographical export patterns are Africa, Europe and Asia. Furthermore, Europe is regarded as the EU because the vast trade that has been conducted between the EU members due to the fact that they have an existing trade agreement. Consequently, from a continental perspective, 29.1% of South African exports by value are delivered to other African countries while 29% are sold to Asian importers as well as a 23.3% share to the EU.

**Trade with the EU**

South Africa and the European Union’s trade relation are governed by the free trade agreement TDCA (Trade, Development and Co-operation Agreement) which covers almost 90% of bilateral trade between the parties. South Africa is the EU’s largest trading partner in Africa. SA’s export to the EU is growing and compositions of these products have been becoming more diverse. SA export to the EU has been moving from a resource based export to the more diversified export profile that includes manufacturing products. On the other hand the trade between the European Union and SA has been declining.
As seen plotted above, the EU proportion of South Africa’s total commerce has been on a downward tendency since 2008, which is astonishing while the overall SA export to the world has been rising steadily. Between 2000 and 2008 the trade fluctuated among the 40% and 30% bandwidth. After 2008, the trade dropped sharply from 30% to below 20% up to 2012. As of 2013, it has moved slightly upward but it is not enough when compared to the duration before 2008. This graph proves the disposition of SA trade policy when we think alongside the export graph above. As of 2008, the portion of the EU in SA export dropped almost as much as 20% so it is quite pivotal to consider for SA’s export to the EU. In 2015, this rate fell to 20.8% once again.

**Export pattern with the EU in 2015**

The SA manufacturing sector has been protected for a long period by firm import tariffs in order to increase its competitiveness. To figure out the SA export pattern with the EU in 2015, we ran data from SARS.

SA exports to EU manufacturing base products:
The graph above illustrates that SA’s natural resource exports are at most around 34%, High-mid tech manufacturing 32% and low tech manufacturing 23% of SA’s total export to the EU. This is actually the highest ratio in the high-Mid technology exports ratio of SA.

**Trade policy to the EU**

In October 1999, The EU and South Africa signed a “Trade, Development And Cooperation Agreement” after five years of negotiations but it was only fully entered into force on 1 May 2004 (Trade, Development and Cooperation Agreement, 2010). There are two goals in this agreement: The creation of a free trade zone, and financial assistance for SA under the European program for reconstruction and development which includes the support for basic social services, private sector development, good governance, democratization, human rights, and regional integration (Lee, 2010). The FTA between the EU and SA constituted the creation of a free trade area between the European Union and South Africa. The EPRD agreement consists of the European Union’s financial support to South Africa in terms of social service, private sector development, good governance, democratization and human rights, and regional integration.
The EU—SA FTA provided that 95 per cent of South African exports will enter the EU market duty-free within 10 years and 86 per cent of EU exports will enter the South African market duty-free within 12 years. The automobile and clothing and textiles sectors were deemed by South Africa to be sensitive. Consequently, automobiles and components, clothing and textiles will remain on the reserve list and will not be subject to tariff elimination or reduction with respect (Lee, 2010). Besides all tariffs, specifically, both sides pledged to reduce the agriculture tariffs by around 48% however industrial tariffs by 99% in the course of 6-9 years as from the date signed (Kwaramba, Kwenda-Magejo and Rankin, 2015). The TDCA might be important since more productive firms may drive out South African low productivity through competition. Low tariffs to access to the EU market may lead to increased competition in the South African market since more firms will be willing to export to the EU market. Increased competition induces exporters to innovate in order to remain competitive on the foreign market. This is defensive exporting, where increased competition in the domestic market forces firms to export so as to maintain scale and remain competitive (Kwaramba, Kwenda-Magejo and Rankin, 2015).

The EU is an important destination for SA manufacturing products following Africa. This 32% high-mid manufacturing share in SA exports to the EU mentions that SA industrial products can compete effectively in global markets either in advanced or in the developing countries.
The trade with the EU for SA is really beneficial because of the high intra-industry trade in the High-Tech products. For the low-tech products, the ratio is also significant because it is almost beyond the 0.5 limit which is proof of that there is a moderate intra-industry trade.

As a result, although the EU is a significant destination for SA’s natural resource products, SA has significant intra-industry trade with the EU in high-mid tech products alongside the remarkable low-tech intra industry trade. FTA with the EU for SA’s productivity in the manufacturing industry is important due to competitiveness in the EU market because their domestic products are required to catch European quality standards in order to survive in the free trade zone.

**Trade with Asia**

Since 1994, South Africa has continued strong relations with South Asian countries and managed trade with co-operation agreements. South African trade with the Asian continent has been run by a few giant economies in Asia. These are:
As seen in the plots, there are three important trade partners for SA export, which are China 31%, India 13%, and Japan 16%. Those partners are above the 10% share of SA export to Asia.

**Export Pattern with Asia**
Trade with Asia is important for SA companies because SA have been competing with Asian companies in the global market, especially with China and India. Therefore, it is important to decipher what products can competitively be exported to the Asian market. To figure out the SA export pattern with Asia in 2015, we ran data from SARS.
The graph shows that SA’s natural resource export to Asia is around 54%. The high-mid manufacturing products share in SA’s total export to Asia is below 10%. The low manufacturing export share is quite significant with a ratio of around 32%. Consequently, it can be said that the SA’s export pattern to Asia is shaped by resource and raw material products alongside the moderate low-manufacturing export.

**Trade policy with Asia**

Once we look at the major trade partner China, the formal relations between South Africa and China started in 1998, since then South Africa is one of China’s key trading partners in Africa. Although a close relationship between the parties exists, there are no bilateral trade agreements between each other at the moment. Especially since the South African industrial lobbies believed that an increase in Chinese imports will result in more job losses occurring because the trade pattern with China is based on importing manufactured goods and exporting raw commodities. Furthermore, China is the main competitor against SA in the low-skill and labor intensive product categories in either the domestic or international market. Therefore SA is prudent on the tariff policy to implement against China (Lawrence and Lawrence, 2006)
As seen above, SA’s export pattern with China is composed with natural resource products 63%, low tech manufacturing products 33%, and high-mid tech manufacturing products 0.5%. It is clear that SA’s export pattern with China is resource and raw material based. Therefore, SA’s sophisticated manufacturing industry is not able to compete with Chinese products except for iron-steel and chemical industries.

Within this framework, SA has been getting close to China by operating at bilateral, continental and multilateral levels, through G20 and BRICS platforms, the governments are actively striving to realize the comprehensive strategic partnership envisaged in 2010. Beyond this, trade agreements have yet to be signed between South Africa and China despite their existing trade relationship. The much more important question whether the Chinese access to international trade crowd out SA’s export. Based on the trade picture drawn above, China has been crowding SA exporters out of the Asian market. China has intensified its low tech manufacturing as well as increased its share in high-mid tech manufacturing products. Chinese trade policy is based on an increasing number of sectors where she enjoys a comparative advantage. SA’s export pattern in China market seems to be export specialized rather than export diversified because SA’s significant manufacturing shares are only chemical and steel-iron products with 24%. The other
headlines such as footwear, textiles, machinery etc do not have any chance to compete with the Chinese Market (Giovannetti and Sanfilippa, 2009).

In the Asian market, high-mid tech manufactured products are the lowest in contrast to the EU because high – tech products of SA does not have any chance to compete in the Asian market. On the contrary due to the existence of highly competitive metals and chemical products in the SA’s industry, a significant intra-industry trade occurred in the low-tech products between the partials Asian market is detrimental in terms either of the trade balance or of the technology transfer because there is no significant intra-trade occurred in the high-mid tech products. As a
result, SA’s export pattern with Asia is generally nonmanufacturing raw commodity based, additionally, low tech manufacturing product such as Metal products.

**Trade with Africa**
Since 1994, the pivotal year in which South Africa held its first democratic elections, without a doubt the country has been continuing to play an important economic role on the continent. Since South Africa’s economy is so much larger and more diversified than those of its neighbours, SA remains a driving political force in the African Union and a major supporter of peace missions across the region. As such, South Africa has received recognition as an important emerging power and gained access to key international platforms including the United Nations Security Council (2007-2008 and 2011-2012), the G20 and the BRICS (Brazil, Russia, India, China and South Africa) forum.

As seen in the plot, there are five main country patterns on the African continent for SA’s exports, which are Namibia, Botswana, Mozambique, Zambia, and Zimbabwe. For manufactured goods, Namibia, Botswana, and Zambia are the main importers of SA products. Furthermore Botswana has the highest demand for SA mineral products.SA export to Africa is generally shared with Botswana and Namibia close to 20% each, Mozambique and Zambia around 11% each, and Zimbabwe almost 10%. Additionally, almost 11% is for Lesotho and Swaziland...
combined. Around 83% of SA’s exports to Africa go to Neighbouring Countries-Sub-Saharan Africa.

**Export Pattern to Sub-Saharan Countries**

To figure out of SA export pattern with the EU in 2015, we ran data from SARS by using a statistical program.

SA exports to EU manufacturing base products:

Firstly, in 2015, SA natural resources’ export share in the SA total export to Sub-Saharan is around 17%, high-mid technology manufacturing products export 29%and low technology manufacturing products is about 44%.

SA export pattern to Sub-Saharan countries is embodied with generally low tech manufactured products alongside with the significant share of high-mid tech manufactured products.
Trade policy with Africa
Sub-Saharan Africa is the region in which SA’s industry value added products are to be able to compete with developed countries. SA’s this competitive capability relies on her trade policy in the region which are framed with SACU and SADC. SA highest export share in 2015 in the region is with Namibia that is around 17.4%. Namibia is part of SACU, namely, the tariff ratio in the country is zero for the SA’s industrial products.

As seen above, the high-mid manufacturing share in the SA export to Namibia is 34%, low manufacturing products share 46%, and natural resources export share 9.8%. SA has always been Namibia’s main trade partner. However, the trade balance remained tilting in favour of SA since SA generally exports low and high manufacturing products. Furthermore, due to existence of SACU between the parties, SA manufactured goods can easily enter into the Namibian markets. This can be seen in the intra-industry index chart as well.
The plot above indicates SA’s manufacturing industry did not have a significant intra-industry trade with the region, especially in high-tech manufacturing sector due to SA’s high comparative advantages in high-tech manufacturing against the Neighbouring Countries. Additionally, low-tech manufacturing has involved more into the intra trade with comparison high-tech products. This plot above shows even though the trade is on positive side considering high comparative advantages of SA manufacturing products in the African market, Africa cannot contribute to SA in terms of technological progression in the manufacturing products as the EU.

As a result, the South Africa Foundation noted with respect to South Africa’s exports to the region which overlapped the SA’ export pattern in the region we illustrated through our plots in this chapter that: “There is a high proportion of value-added exports to the rest of Africa, with machinery, Mechanical appliances, iron and steel articles, transport goods, chemicals, and Plastics and rubber goods accounting for close to 70% of the total. This is an important Consideration, as it ties in with South Africa’s domestic economic structure, based traditionally on mining, agriculture, engineering and chemical products, and their allied industries. These are also the areas that are attracting the most (investment) interest in other African countries” (Kiratu, Samuel and Draper, 2010). An important feature of South Africa’s trade with the rest of Africa is that the distribution of South Africa’s
exports is heavily concentrated among its close neighbouring countries. The South African government has actively promoted the use of trade instruments in the region particularly through tariff liberalization incorporating both SACU and SADC: the former is characterized by duty free movement of goods within the customs union; the latter has established a free trade area. BRICS seem to have been a successful result of economic diplomacy but due to the absence of preferential trade agreements, it doesn’t have a large impact on SA trade. For example, in 2013 South Africa exported more manufactures to Botswana than to China, and more to Lesotho than to Brazil and Russia combined. Consequently, South Africa’s comparative advantage within Africa lies in manufactured exports stemming from its proximity and preferential trade agreements that allows her to compete successfully in neighboring countries (Alence, 2015).
Conclusion
South Africa since the end of the apartheid regime in 1994 has embraced the export led growth economy policy in order to integrate its economy into the international economic system.

*Market pattern:* SA geographical patterns were diversified with the EU, Asia, and Africa, from a continental perspective, 29.1% of South African exports were delivered to other African countries while 29% are sold to Asian importers and 23.3% to the EU. Furthermore, SA economic relations are based on professional and technical webs unlike the politic and cultural ones.

*Products pattern:* The composition of SA export products are clearly diversified over the past decade since the end of apartheid, the composition still constitutes important natural resource share which undermine industrial improvement.

The plot above shows that the general pattern of SA is shaped with natural resource 35%, high tech manufacturing export 22%, and low-tech manufacturing export 33%. SA’s high-mid share is quite good for her industrializations; however the high share of natural resource is undermining both low-tech products and the high tech products. In terms of export pattern of SA to those regions; the high-mid tech share in the EU is 32% of SA total export to the EU, Asia is 5.1% of the SA total export to Asia, and the high mid tech share in Africa is around 29%. Therefore, SA manufacturing products primarily in the European market have a competitive power based intra-
industry trade and then in the African market have a comparative advantage within the preferential trade agreements signed by parties.

Consequently, it is apparent that SA’s high manufacturing sector share is quite good performed in the export. Conversely, the low-tech manufactured product share is relatively at a low level in comparison to other emerging markets.

*Trade Policy:* SA’s industrial trade is highly dependent on the intra-industry trade with the EU. This manufacturing has increased along with import rising, the dependency is the main cause of SA trade imbalance with the EU. SA is generally open to the high-tech manufactured products which are on average rounded to 4%, apart from Vehicles. However, SA low-tech manufacturing products tariff ratios are higher, particularly Textile, with comparison of other developing countries.

The chart above shows that trade with African countries seems more profitable than trade with the EU and Asia. The existing trade patterns and comparative advantages with Africa are composed of manufacturing products and the trade deficit is on the positive side unlike the EU and Asia. The EU is more profitable than Asia in terms of either of the trade balance or of the trade pattern because the EU has the highest share among geographical patterns for SA’s high-mid technological manufacturing products. The EU is more beneficial than Africa in the long...
term as well considering that even though SA’ manufactured products have a high competitive advantage in the African market this does not contribute anything into the quality of these products. This point is our theoretical point in which many developing nations are schizophrenic as to open up the internal markets to international competition. However, in defence of emerging countries even if trade is on the deficit side, trade with the EU doesn’t hamper your industrial competitiveness; conversely the competitiveness is most likely increases due to competition with high qualified the EU products. In this sense, intra-industry trade is important for the developing countries to upgrade their export pattern to highly competitive products within the quality based. Additionally, SA has a vast comparative advantage of manufacturing sector in trade with neighbour countries thanks to her professional and international law based trade policy (SACU-SADC). Furthermore, SA doesn’t have a significant intra-industry trade due to SA’s high comparative advantage against the Sub-Saharan countries.

As a result, SA’s trade policy shows developing countries are schizophrenic, with a will for trade liberalization but a simultaneous will to protect local industries. This can be gleaned from SA’s liberal policy implementation for manufacturing products but moderate protectionism in the textiles and vehicles industries. As seen above, the existence of the high intra-industry trade index with the EU shows the competitive power of her industry; hence SA should reduce tariffs on low-tech manufacturing products. Secondly, SA’s comparative advantage in the neighbour countries relies on her trade policy in the region which is framed with SACU and SADC. Generally, SA lag behind in the low-tech manufacturing exports compared to other newly industrialized countries. SA is a quite protectionist for her low-tech manufactured products and SA’s weaknesses in these products in international trade might stem from high tariff policy on these products.
Chapter 5

Conclusion-Comparative Analaysis

Introduction
Turkey and South Africa are two regional powers with international roles, responsibilities and influence and are classified as a newly industrialized country. We have previously discussed SA and Turkey’ trade pattern and trade policy individually. In this chapter, the similarities and differences of their trade patterns and trade policies will be discussed.

The Political Economy of Trade Policies: Historical Perspective
Throughout the history, Turkey and South Africa have travelled a similar political and economic road. Both countries implemented similar policies of industrialization. Until the end of the Second World War, Turkey and South Africa were (simultaneously) under the planned run economic model that consisted of high tariff policies which can be described as “the term with heavy presence of state run company backed by high tariff protection”. Therefore, under such restrictive policies, both governments struggled with the foreign exchange availability but with industrialization, unlike the failure of the current account balance; there was a considerable amount of catching up to be done in the industrialization process. These countries under the restrictive policies formed by public enterprises and planning ended up in a current account crisis because the trade deficit could not be prevented by the protectionist policy. The 1970s were hard for both communities as there were currency shortages. However, SA’s condition was much better due to the existence of high natural resources reserves relative to Turkey. Basically, they both were under the economic turmoil; hence, the 1980s was a reform period for both economic and political confines. Essentially after the 1990s they both started the export-led economic policy; this can easily be seen in their trade policy because they began closer relations with both their neighbouring countries and the EU. South Africa demonstrated this by joining SADC in 1994 and by efficiently activating SADC, and Turkey demonstrated by setting close political relationships with neighbouring countries and by signing a Custom Union with the EU.
The Trade Patterns and Strategies of South Africa and Turkey: Differences and Similarities

The commodity patterns in this paper are classified as based “Natural Resource; Low-labour tech manufactured products; High-Mid tech manufactured products”.

**Natural Resource**: whilst Turkey does not have any share in the natural resources exports, SA has the highest rate in its export share. The question is whether this might be a problem for SA’s economic growth and industrialization because SA might be at risk of de-industrialization since the natural resource revenue that is the revenue is so volatile which suggest that it can undermine the economic growth. Volatility generates uncertainty; economic upheaval during the bust-phase can have long term negative consequences. The other problem is that could lead the economy to be caught in the “Dutch Disease” namely “De-industrialization” because with the Dutch Disease, the economy is faced with the real exchange rate appreciation which erodes the external competitiveness. Consequently, we can say that the natural resource can crowd out on non-natural resource export. Essentially, this can be seen in the SA’s commodity pattern because SA’s highest share in her pattern was “Natural Resource” with 35% while Turkey has almost 0% which also crowd out SA’s export in the low-tech products.

**Low-Labor Tech Manufacturing**: The importance of low technology manufactures lies in fact that they are labour-intensive. Labor intensive industry refers to that industry, which requires substantial amount of human labor to produce industrial products. Furthermore, low-labour intense manufacturing is generally produced by Small-Medium Enterprises (SMEs) (DN, 2007). Turkey and especially South Africa ponders its chronic unemployment problem, it is useful to set out a framework to evaluate contribution of the manufacturing sector to economic growth and the generation of employment; manufacturing continues to be the key driver of rapid economic growth and the associated creation of employment, both directly and indirectly as it feeds the agricultural and service industry.

There is a large difference between Turkey and South Africa’s low manufactured products’ exports. Whilst Turkey has more than 60% in low-tech manufactured exports, this ratio for SA is less than 35%. Especially, considering that low tech manufactured products are generally
produced by SMEs, it is not surprising that Turkey has a large amount of export shares in these products. Turkey and SA’s main difference in the low tech exports are appearing at this point: that is the difference of the amount and efficiency of SMEs since there are many challenges to SA’s SMEs stemming from difficulties in SMEs’ access to finance and credit, poor infrastructure, onerous labor law, inefficient government bureaucracy, high levels of crime, and lack of access to markets (The Small Enterprise Development Agency, 2016). In addition to this, the existence of SA’s raw material export crowd out SA’s low-tech manufacturing export as well.

*High-Mid Tech Manufactured Products*, framed based on these products: pharmaceutical production, IT and telecommunications products, motors and electrical equipment products, machinery for specific uses, components, machine tool, products for rail transport, and the aerospace industry (Padua Chamber of Commerce (CCIAA), 2015). In a brief, High-Mid tech products are generally produced by an engineered process and by big companies, not by SMEs. Even though Turkey has a slightly larger share than South Africa in these products: Turkey 30%; South Africa 22%, this closeness in the export pattern emphases that the technological progression is similar between both which can be observed in the high-tech manufacturing export to the EU of both.

In terms of geographical patterns, Turkey and SA has been overlapping on exports to the EU and Neighbouring Countries. On the contrary SA’s export patterns in the Asia region, especially China, are the difference with Turkey. SA’s export to Asia was generally embodied with SA’s natural resources as well as a small amount export of chemical and metal products. Turkey export to Asia remained at a low level due to scarcity of Turkey’s natural resources and export diversification is not easy in the Asian market since Asian countries have a significant comparative advantage in various types of manufactured products. The survival of SA’s export is developed from its natural resources and specialization in commodities such as the chemical and metal industry.

**Pattern and Policy with the EU**

Turkey and South Africa have been running their trade with the EU along the preferential trade agreement that they signed. As seen in the pattern analysis, SA and Turkey have almost the same ratio in the high-mid tech export to the EU: SA 32%, Turkey 36%. Regarding the high-mid tech
intra-industry trade: while SA was operating at 0.7 intra industry trade, Turkey remained at 0.55. Considering that these two countries’ tariff ratios of these products are similar, this high intra-industry trade index of SA illustrates her high competitiveness power against the Turkey.

For the low tech manufactured products, Turkey has overtaken SA by a wide margin; Turkey 59%, SA 23%. Regarding low tech intra-industry trade, while Turkey’s intra industry trade is 0.55, SA remained around 0.45. Hence, the main difference in SA’s uncompetitive power in low-tech manufacturing products in the EU market stems from either high tariffs on textile and car component sectors, the distance between SA and the EU or the weaknesses of SA’s SMEs relative to her rivals such as Turkey.

The trade balance with the EU is on the slightly negative side for both countries. This can be explained by the uncompetitive trade as well as intra-industry trade in the view of the fact that whilst those countries were selling high technology, at the same time, they were buying the same kind of products. This can be seen as a detrimental in terms of the trade balance but in the long term this might be beneficial in terms of labor productivity and high technological industrialization process.

**Pattern and Policy with Neighbouring Countries**

Turkey and South Africa are two regional powers with international responsibilities. Therefore, trade with their respective neighbours is significant in terms of their industrialization. Distance is one of the main determinants that affect the cost of trade; hence, trade with neighbouring countries is crucial for developing countries to compete against countries with cheap labour costs such as India, and China. Turkey and South Africa both have an export pattern with their neighbouring countries. Once we look at trade with the neighbouring countries, it can easily be seen that SA’s trade policy is much more technical and immune to the volatile politic relations that is embodied in preferential trade agreements such as SADC and SACU.

SA has overtaken Turkey in high-mid tech export to their neighbours: SA 29%, Turkey 17%. For the low tech manufactured products, Turkey has overtaken SA by wide margin; Turkey 79%, SA 44%. In addition to this, SA has the significant share of natural resources export: Turkey 0.4%, SA 17%. Turkey seems to be left behind by SA in the high-mid tech manufacturing exports to
neighbours. This also gives an idea on how SA’s economic diplomacy is technical and international law based in the relationship with her neighbours because SA’s industrial trade generally comes from preferential trade agreements such as SACU-SADC, unlike Turkey’s politic based economic diplomacy. Additionally, it seems that Turkey is operating the trade with her neighbours that are much more SMEs based than SA’s professional insights.

The trade balance with Neighbouring Countries is highly positive for both countries. This can be explained with their comparative advantage in manufacturing products considering whilst Turkey and SA were selling high technology, at the same time, were not buying the same kind of products since they have a different technological pattern in comparison to their neighbours. Therefore, there is no intra-industry trade with Neighbouring Countries in the manufacturing sector for both countries due to the existence of high comparative advantages against the Neighbouring Countries.

**Conclusion**

The aim of this study is to analyse the murkiness on the path of newly industrialized countries by observing the similarities and differences of SA and Turkey’s trade patterns and strategies. The comparative findings are; Turkey and SA’s trade policies are similar throughout history, however, since 2004, Turkey’s liberalization policy has more intensively been implemented than SA. The main similarity between SA and Turkey’s export pattern is that they both are equally qualified in terms of high technology endowment. The main difference is that SA’s low-labor intense products do not have competitive power in the world market relative to Turkey. In addition to this, SA’s raw natural resource export is hampering the growth of low-tech industries. For geographical patterns, the export to the EU within intra-industry trade and Neighbouring Countries within inter-industry trade are where SA and Turkey are similar. On the contrary SA’s export patterns in the Asia region, especially China, are the difference with Turkey. SA’s export to Asia was generally embodied with SA’s natural resources as well as a small amount export of chemical and metal products.

The big picture of this research report to disperse of the murkiness on the path of newly industrialized countries is:
-Trade with the EU is beneficial for them in terms of the health of either high-tech manufacturing or low-tech manufacturing sectors. Hence trade liberalization with the EU should be encouraged due to high intra-industry trade opportunity.

-Natural resource exports are crowding out the evolution of low-tech manufacturing

-Low-tech manufacturing exports are the essential for newly-industrialized countries therefore it should be competitive in international market with low tariff on them

-Newly industrialized countries are expected to export manufacturing to their Neighbouring Countries within the inter-industry trade way stemming from high comparative advantage in manufacturing

-Newly industrialized countries should be similar or close to each other in export share of high-tech manufacturing.
Bibliography


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